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Viewing cable 10KUALALUMPUR59, MALAYSIA: SKS VENTURES EXPLAINS ITS IRAN INVESTMENTS

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- The top box shows each cables unique reference number, when and by whom it originally was sent, and what its initial classification was.
- The middle box contains the header information that is associated with the cable. It includes information about the receiver(s) as well as a general subject.
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Reference ID	Created	Released	Classification	Origin
10KUALALUMPUR59	2010-01-27 10:38	2011-08-30 01:44	CONFIDENTIAL	Embassy Kuala Lumpur

Appears in these articles:

<http://www.malaysia-today.net/mtcolumns/41041-wikileaks-syed-mokhtar-al-bukharys-foray-into-iran>

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SUBJECT: MALAYSIA: SKS VENTURES EXPLAINS ITS IRAN INVESTMENTS

Classified By: Econ Counselor Matt Matthews for reasons 1.4 (b) and (d)

11. (C) Summary: SKS Ventures (SKS) CEO Abang Iskandar Muas (Iskandar) met with Econoff January 19 to discuss SKS plans to develop the Golshan and Ferdowsi gas fields (G&F) in Iran. Iskandar said that the GOM had initially negotiated the deal with the GOI and handed the project to SKS just prior to signing. Iskandar told us that development of the G&F fields is going slowly because sanctions impeded National Iranian Oil Company (NIOC) ability to perform basic due diligence functions. He also stated that NIOC has been extremely difficult to work with and that the initial buyback service contract signed in Dec. 2007 is the only commercial agreement between SKS and NIOC. SKS's only investment over the past two years since the announcement was limited to staff time from their 15 employees and air tickets for meetings with a total value under \$1 million, according to Iskandar. He was pessimistic on prospects for the deal and said that SKS is considering pulling out altogether. However, he emphasized SKS would need GOM approval prior to exiting the transaction because Malaysian Trade Ministry and Foreign Ministry officials had encouraged SKS to enter into the deal in the first place and had reconfirmed GOM support for trade cooperation with Iran at a recent meeting. Iskandar also denied reports of SKS participation with NIOC in a refinery projects in Syria and Indonesia and downplayed its deal with NIOC which is under review in Malaysia. End Summary.

12. (C) Comment: SKS is small operation controlled by Syed Mokhtar al Bukhary, one of Malaysia's wealthiest industrialists with a Forbes Magazine estimated net worth of \$2 billion. Much of Syed Mokhtar's personal wealth has been acquired in dealings with the GOM and GOM-linked corporations. He controls Malaysia Mining Corporation, DRB Hicom, Malakoff, and Gas Malaysia among other significant Malaysian operations. Post believes Iskandar is a credible interlocutor that provided an important window on the GOM's role in the deal and SKS current thinking on the transaction. Iskandar seemed genuinely frustrated that the G&F deal turned out to be an empty business proposition due to NIOC incompetence and Iran sanctions. Other oil and gas industry contacts have confirmed the small size and scope of the SKS operation. End Comment.

SKS Ventures

13. (C) Econoff met January 19 with SKS Ventures (SKS) CEO Abang Iskandar Muas (Iskandar) to discuss the SKS intentions to develop the Golshan and Ferdowsi gas fields (G&F) in Iran and implications under the Iran Sanctions Act (ISA). Iskandar mentioned early in our conversation that Ministry of International Trade and Industry (MITI) Senior Director Wong had called him January 15 informing him that the embassy had been trying to contact him and he needed to meet with us. Econoff delivered ref A points and offered additional background on our information request. According to Iskandar, SKS has 15 full time employees and works on projects outside of Malaysia for Syed Mokhtar. Iskandar is an experienced O&G industry professional, having worked for Shell Oil USA (based in Houston) for fifteen years in Sarawak, Saudi Arabia (where he was VP for Finance and Human Resources), and Kuala Lumpur prior to assuming his current position with SKS two and one half years ago. Iskandar fondly reminisced of his frequent travel to the U.S. for business and family vacations prior to assuming his position at SKS.

Golshan and Ferdowsi) G2G Agreement

14. (C) Iskandar said the G&F deal grew out of government-to-government negotiations between Malaysia and Iran during 2007. The GOM brought SKS to the table late in the negotiations, according to Iskandar, finalizing a buyback

service contract between SKS and National Iranian Oil Company (NIOC) in December 2007. He added that SKS entered into the agreement based on the GOM's policy of expanding trade cooperation with Iran and the belief that the business climate for oil and gas (O&G) in Iran was improving during 2005-6. Iskandar said that the initial business strategy was for SKS to plan the project, NIOC to perform physical due diligence (appraisals, seismic analysis, feasibility studies, etc.), and, once the project was ready to start, sell controlling interest, at a profit, to an international oil company that could bring resources to develop the fields. Iskandar commented, "We have no wells, no drilling rigs, no facilities, no experts, and no technology" to implement a project the size of G&F. His explanation as to why the Iranians would enter in to a transaction the size of G&F with such a small entity was, "in order to be friendly to the government(of Malaysia)."

NIOC Difficulties

15. (C) Working with NIOC, according to Iskandar had been "extremely difficult." He added, "we should have taken a lesson from Petronas" claiming that Petronas will not deal with NIOC any longer because NIOC still owed a substantial amount of money to Petronas from its buyback service contract for South Pars Phases 2 and 3. Iskandar said that NIOC has made no progress on its due diligence obligations at G&F due to international contractors refusing to work in Iran because of sanctions. He complained that SKS and NIOC also have not reached any commercial agreements on the project in the last two years. Iskandar stated, "We have no idea how we would be paid. NIOC has not agreed to LNG and we have no interest in selling gas domestically. Iran uses most of their gas to inject into their oil fields to get more oil or to produce heavily subsidized electricity." He listed numerous other problems plaguing the project related to Iran sanctions such as the inability to import LNG technology or hire expat expertise, a low likelihood that Iranian LNG could be consistently sold on the open market, and NIOC's lack of access to financing.

SKS Ready to Walk Away

16. (C) Iskandar described the SKS agreement with NIOC on G&F as "barely hanging on" and that SKS is currently deciding whether to stay in or pull out, and added, "The decision will come sooner rather than later." He viewed the buyback service contract as having "no commercial value" at this time. He noted though that Syed Mokhtar's close connections to the Malaysian government mean SKS will not move on a G&F decision without policy direction from the GOM. "We do not want to be on the wrong side of the government and we have not heard from PM Najib", according to Iskandar. However, he added that SKS has "no money in the ground" in Iran, because the firm did not pay an initial "signing bonus" as the buyback service contract did not carry any vested rights to the gas. He also stated that SKS management is aware of the change in the international political environment with regard to Iran and is "not entrenched," implying SKS would quickly drop the transaction if permitted by the GOM.

Another View of the MITI Meeting

17. (C) Iskandar offered a different account of the recent meeting between MITI and Ministry of Foreign Affairs (MFA) officials and officers from the three Malaysian companies listed in ref A. Iskandar said that after the companies answered MITI queries on their Iran investments, the companies, especially Petronas, pushed back at MITI and MFA asking "What is the government's stance on trade cooperation with Iran?" and "Should we adjust our investment strategies?" MITI responded that the GOM still supports trade cooperation with Iran, according to Iskandar. (Comment: The MFA account of the meeting (ref B) was similar to Iskandar's but omitted the companies' questions and MITI's response. End Comment.)

Other Announcements Inaccurate

18. (C) Toward the close of the meeting, Iskandar addressed recent Iranian and Malaysian press announcements of SKS participation in other transactions with NIOC. He stated that the GOM asked SKS to commission a feasibility study on a project with NIOC. It involved a refinery project in Kedah with a pipeline across the Malaysian Peninsula to Terengganu.

Iskandar commented that the pipeline is economically unwarranted and an Iranian partner likely makes the refinery unfeasible. He added that recent announcements of SKS participation in a refinery project in Syria with Iranian and Venezuelan partners and SKS participation in an Indonesian refinery project with Pertamina and NIOC are blatantly false.

He said that the first SKS had heard of either project was in press reports. He explained that SKS never issued denials of participation in the deals in order to avoid embarrassment in case the government was involved.

KEITH